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BEFORE THE ARIZONA CORPORATION CONTINUES OF THE ARIZONA CORPORATION CORPORATION CONTINUES OF THE ARIZONA CORPORATION CORPORA

JEFF HATCH-MILLER
CHAIRMAN
WILLIAM A. MUNDELL
COMMISSIONER

2008 DEC 30 ₱ 4: 17

MARC SPITZER

AZ CORP COMMISSION DOCKET CONTROL

COMMISSIONER MIKE GLEASON

COMMISSIONER

KRISTIN K. MAYES COMMISSIONER

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, INC., AN ARIZONA CORPORATION, FOR AUTHORITY TO IMPLEMENT ARSENIC COST RECOVERY MECHANISMS FOR ITS AGUA FRIA WATER, SUN CITY WEST WATER, HAVASU WATER, AND TUBAC WATER DISTRICTS.

Docket No. W-01303A-05-0280

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, INC., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS SUN CITY WEST WATER AND WASTEWATER DISTRICTS.

Docket No. WS-01303A-02-0867

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, INC., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS MOHAVE WATER DISTRICT AND ITS HAVASU WATER DISTRICT

Docket No. WS-01303A-02-0869

Arizona Corporation Commission

DOCKETED

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1 IN THE MATTER OF THE APPLICATION OF Docket No. WS-01303A-02-0870 ARIZONA-AMERICAN WATER COMPANY. INC., AN ARIZONA CORPORATION, FOR A 2 DETERMINATION OF THE CURRENT FAIR 3 VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON 4 FOR UTILITY SERVICE BY ITS ANTHEM WATER DISTRICT, ITS AGUA FRIA WATER 5 DISTRICT, AND ITS ANTHEM/AGUA FRIA 6 WASTEWATER DISTRICT. 7 NOTICE OF FILING RUCO'S REPORT ON 8 ARIZONA-AMERICAN WATER COMPANY, INC.'S STEP TWO ARSENIC FILING - AGUA FRIA DISTRICT 9 10 The Residential Utility Consumer Office ("RUCO") hereby provides its Audit Report of 11 Arizona-American Water Company Inc.'s Step Two ACRM filing for its Agua Fria Water 12 District. 13 14 RESPECTFULLY SUBMITTED this 30th day of December, 2008. 15 16 17 Daniel W. Poze **Chief Counsel** 18 19 AN ORIGINAL AND NINETEEN 20 COPIES of the foregoing filed this 30th day of December, 2008 with: 21 **Docket Control** 22 **Arizona Corporation Commission** 1200 West Washington Street 23 Phoenix, Arizona 85007

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1	COPY of the foregoing hand delivered/ mailed this 30 th day of December, 2008 to:
2	-
3	Teena Wolfe Administrative Law Judge Arizona Corporation Commission
4	1200 West Washington Street Phoenix, Arizona 85007
5	·
6	Janice Alward, Chief Counsel Legal Division Arizona Corporation Commission
7	1200 West Washington Street Phoenix, Arizona 85007
8	,
9	Ernest G. Johnson, Director Utilities Division
10	Arizona Corporation Commission 1200 West Washington Street Phoenix, Arizona 85007
11	,
12	Craig A. Marks Craig A. Marks, PLC 10645 N. Tatum Boulevard
13	Suite 200-676 Phoenix, Arizona 85028
14	
15	Walter W. Meek Arizona Utility Investors Association, Inc. 2100 North Central Avenue, Suite 210
16	Phoenix, Arizona 85004
17	Thomas M. Broderick, Manager Government and Regulatory Affairs
18	Arizona-American Water Company 19820 N. 7 th Street, Suite 201
19	Phoenix, Arizona 80024
20	Joel M. Reiker Arizona-American Water Company
21	19820 N. 7 th Street, Suite 201
22	Phoenix, Arizona 80024

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David P. Stephenson Director of Rates and Revenues American Water Works Service Co., Inc. 303 H. Street, Suite 250 Chula Vista, California 91910

By Frankle Samble

TO:

Stephen Ahearn, Director

Dan Pozefsky, Chief Counsel

FROM:

Rodney Moore, Public Utilities Analyst

RE:

AGUA FRIA - Report on RUCO's audit of the Arizona-American Water Company filing for an Arsenic Cost Recovery Mechanism ("ACRM") Step 2 rate increase for its Agua Fria Water System.

AUDIT OBJECTIVE:

The purpose and objective of this audit was to verify the operations and maintenance ("O&M") expenditures of the completed arsenic plant in the Agua Fria Water District, to verify the prior 12 months of deferred O&M costs and the ongoing O&M costs, verify compliance with Decision Nos. 68310 and 66400 authorizing the ACRM, and verify the accuracy of the requested ACRM surcharge.

AUDIT PROCEDURES:

I performed the following audit procedures:

- 1) Verified that all schedules that are required by Decision No. 66400 are included in the application.
- 2) Reviewed Earnings Test for compliance, accuracy, and determined if the Company had passed the Earnings Test.
- 3) Reviewed all arsenic O&M invoices, looking for such things as misallocations, unreasonable costs, non-arsenic O&M costs, double billings etc.
- 4) Verified accuracy of invoice totals and grand total.
- 5) Reviewed Revenue Requirement calculations for accuracy and compliance.
- 6) Reviewed rate design for accuracy of calculations, and checked the reasonableness of the billing determinants by comparing to the instant rate case.

AUDIT FINDINGS:

The Agua Fria Water ACRM filing is accurate and in compliance with Decision Nos. 68310 and 66400.

AUDIT RECOMMENDATIONS:

The Company's ACRM request should be approved as filed. RUCO recommended ACRM step 2 rate increases are displayed on the attached Schedule RUCO ACRM-2.

Arizona-American Water Company Agua Fria Water District Docket No. W-01303A-05-0280 et. al. 12 Months Ending August, 2007 Arsenic O&M Surcharge Calculation

RUCO ADJUSTMENT TO ACRM - AGUA FRIA WATER DISTRICT

					[A]		[B]		[C]
LINE				C	COMPANY		RUCO		RUCO
NO.	DESCRIPTION			<u> </u>	AS FILED	AD.	JUSTMENT	AS	SADJUSTED
1	Arsenic Plant Revenue Requirement Gross Arsenic Plant in Service/Rate Ba	se		\$	4,368,749	\$	_	\$	4,368,749
	Accumulated Depreciation Of Arsenic F		n 1)	•	(675,259)	*	_	•	(675,259)
2	Net Arsenic Plant in Service/Rate Base	iani (Olo	P 17	\$	3,693,490	\$		\$	3,693,490
3	Depreciation rate			•	3.90%	Ψ		Ψ	0,000,100
4	Depreciation expense				144,004		_		144,004
-	Depreciation expense net of tax saving	.1			88,420				88,420
5	Recoverable O&M costs - Ongoing	>			683,036		-		683,036
6		Of Tay 0	Saulana		•		-		•
7	Recoverable O&M costs - Ongoing Net	Of Tax s	savings	\$	419,394			\$	419,394
8	Arsenic Operating Income			Ф	(507,814)			Ф	(507,814)
9	Rate of return				-11.62%				
10	Required Rate of Return ²				6.50%				
11	Required Operating Income				240,077		-		240,077
12	Operating Income deficiency				747,891		-		747,891
13	Gross revenue conversion factor ²				1.62863				1.62863
14	Revenue deficiency			\$	1,218,038	\$	<u> </u>	\$	1,218,038
15									
16									
17	¹ 38.5986 % tax rate per Dec. 67093								
18	² Decision No. 67093								
19	Decision 140. 07 000								
20									
	COMPANY PROPOSED								
21	COMPANY PROPOSED								
22					ROPOSED		OPOSED		
23			RENT RATES	AC	RM STEP 2		RM STEP 2		
24			LLOWING				FERRED	_	TOTAL
25	RATES	AC	RM STEP 1	BASE	SURCHARGE	O&M 5	SURCHARGE	P	ROPOSED
26	Basic Monthly Minimum Service Charge					_		_	
27	5/8" Meter	\$	9.57	\$	1.24	\$	0.70	\$	11.50
28	Commodity Rates Per 1,000 Gallons								
29	0 to 4,000 gallons	\$	1.3092	\$	0.1102	\$	0.0618	\$	1.4812
30	4,001 to 15,000 gallons	\$	1.7442	\$	0.1102	\$	0.0618	\$	1.9162
31	15,001 gallons and over	\$	2.0102	\$	0.1102	\$	0.0618	\$	2.1822
32									
33									
34									
35									
36	RUCO PROPOSED								
37				PF	ROPOSED	PR	OPOSED		
38		CURI	RENT RATES		RM STEP 2		RM STEP 2		
39			LLOWING		•		FERRED		TOTAL
40	RATES		RM STEP 1	BASE	SURCHARGE		SURCHARGE	Р	ROPOSED
41	Basic Monthly Minimum Service Charge			<u> </u>	55			<u> </u>	
42	5/8" Meter	\$	9.57	\$	1.24	\$	0.70	\$	11.50
43	Commodity Rates Per 1,000 Gallons	*	0.07	₹		+	0 0	Ŧ	
44	0 to 4,000 gallons	\$	1.3092	\$	0.1102	\$	0.0618	\$	1.4812
45	4,001 to 15,000 gallons	\$	1.7442	\$	0.1102	\$	0.0618	\$	1.9162
46	15,001 gallons and over	\$	2.0102	\$	0.1102	\$	0.0618	\$	2.1822
47	10,001 gailons and Over	Ψ	2.0102	Ψ	0.1102	Ψ	0.0010	Ψ	2.1022
48									
40									
49									

r Company t	35-0280 et. al.	ıst, 2007	S Calculation
Arizona-American Water Company Agua Fria Water District	Docket No. W-01303A-05-0280 et. al.	12 Months Ending August, 2007	Arsenic O&M Surcharge Calculation

	Arsenic O&M Surcharge Calculation Line No. Growth	[A] Customers	[B] Total Gallons Sold	[C] Gatlons Sold Per Cust.	<u> </u>	Ξ	E	<u>5</u>	Ξ	Ξ	53
Dec. 20 Year 2 Year 2 Percer Avg G	Dec. 2006 (Year 1) Dec. 2007 (Year 2) Year 2 minus Year 1 Percentage Change Avg Gallons (Col B Ln 1 + Col B Ln 2 + 2)	32,863 33,561 698 2.12%	4,985,660 6,065,106 1,079,446 5,525,383								
	٩	Average	Estimated	Estimated					Fixed Increment	ement	
~ i	eter Size	Customers at 31-Dec-07	Customers at 31-Dec-08	Average Customers	§ ₹	Minimum Multiples	Equivalent <u>Meters</u>	Monthly Base	Base Total		<u>Deferred</u> <u>Total</u>
5/8-inch	5 f	28,065	28,661	28,363	\$ 10.45	0. 6	28,363	\$ 1.24	\$ 421,907	\$ 0.70	\$ 236,592
1-Inch	Ę	53	5	54	10.45	5 0	54	124	- 289	0.0	448
1.5-Inch	ch	,	•	•	10.45	1.0	1	1.24		0.70	
2-Inch		2,244	2,292	2,268	26.74	2.6	5,804	3.17	86,331	1.78	48,411
4-Inch		391	399	395	93.84	υ. υ. α	3 171	0.03 0.03	18,424	3.72	10,332
6-Inch		13 45	137	136	164.02	15.7	2,128	19.46	31,659	10.91	17.753
4-Inc	4-Inch Fire	_	-	-	220.63	21.1	27	26.17	402	14.68	225
9-Incl	6-Inch Fire اعتبار قائد	4	4	4	425.22	40.7	156	50.44	2,323	28.29	1,303
Total	D = -	31,122	31,783	31,453	00.000	0.00	40,942	88.13	\$ 609,019	92.59	\$ 341,518
lculation	Calculation of Surcharge			Minimum Surcharge	Commodity Surcharge						
Total Minim	Total costs to be recovered (ACRM-2, Pg 1, Col (C) Line 14) Minimum Revenue (Col B I n 26 ÷ 2)	ne 14)	\$ 1,218,038	\$ 609 019							
Comi	Commodity Revenue (Col B Ln 26 + 2)				\$ 609,019						
Equiv	Monthly Increment Per Equivalent Meter Equivalent Meters (Col F Ln 22 × 12 Months)			491,304							
Minin	Minimum Surcharge (Col C Ln 27 ÷ Ln 31)			\$ 1.24							
Avera	Average Gallons (Col B Ln 5)				5,525,383						
Com	Commodity Surcharge (Col D Ln 28 + Ln 35)			. "	\$ 0.1102						
atculation	Calculation of Deferred O&M Surcharge	() ()		Minimum <u>Surcharge</u>	Commodity Surcharge						
Mont	I odal deferited Comit to be recovered (ACMIN-2, Pg 1, Col (C) Lil 6 Monthly Minimum Revenue (Col B Ln 41 + 2) Commodity Revenue (Col B Ln 41 + 2)	a (1) (2)	\$ 683,036	\$ 341,518	\$ 341,518						
Equiv	Monthly Increment Per Equivalent Meter Equivalent Meters (Col F Ln 22 × 12 Months)			491,304							
Minim	Minimum Surcharge (Col C Ln 42 + Ln 46)			\$ 0.70							
Avera	Average Gallons (Col B Ln 5)				5,525,383						
Com	Commodity Surcharge (Col D Ln 43 + Ln 50)			. "	\$ 0.0618						